

SECURITY ESCROW AGREEMENT

THIS ESCROW AGREEMENT made and entered into this _____ day of _____, 19____, among the persons and parties who have signed this Agreement as security holders (herein collectively referred to as the “Security Holders”), _____ (the “Escrow Agent”), and _____, (the “Administrator”);

WITNESSETH THAT:

A. Each of the Security Holders is the owner of the number of shares or common stock of the Issuer, _____, or possesses conversion rights, warrants or options to acquire the number of shares of stock of the Issuer listed opposite his or her name on the Exhibit A attached hereto.

B. The Issuer has applied to the Administrator for registration of _____ share of _____ stock (warrants) (options) (units) for sale to the residents of Washington, and elsewhere. As a condition of registration, the Security Holders, the Escrow Agent, the Issuer and the Administrator agree to be bound by this Agreement and the applicable promotional shares rules of the Administrator pertaining to such agreements.

C. Each of the Security Holders has deposited the securities listed opposite his or her name or documents evidencing the right to acquire the securities listed on Exhibit A with the Escrow Agent, and the Escrow Agent hereby acknowledges receipt thereof. The securities are herein collectively referred to as “Escrowed Stock” or “Shares.”

NOW THEREFORE, the persons and parties hereto agree as follows:

1. **DEPOSIT OF CERTIFICATES.** Simultaneously with the execution of this Agreement, the Security Holder is depositing with the Escrow Agent and the Escrow Agent hereby acknowledges receipt of the certificates and documents listed on Exhibit A. At the written request of the Issuer and with the approval of the Administrator, the Escrow Agent shall make available to the Issuer and any affected Security Holder such documents as are necessary to exercise warrants, options or convertible securities.

2. **TERM.** The term of this Agreement and of the escrow provided herein shall commence on the date that the offering is declared effective by the Administrator. The certificates evidencing the securities shall be deposited with the Escrow Agent and shall remain in escrow until the Administrator approves their release, unless released earlier in accordance with the terms of this Agreement.

3. **RELEASE OF SHARES.** Promotional shares which are escrowed shall remain in escrow until the sixth anniversary of the effective date of the registration. On the sixth, seventh, eighth, and ninth anniversary dates, twenty-five percent (25%) of each promoter’s shares shall be released from escrow. In addition, shares may be released from escrow upon the achievement by the issuer of any of the following tests during the escrow period:

(a) One-hundred percent (100%) of the Shares shall be released from escrow after the Issuer has had annual net earnings per share according to generally accepted accounting principles (“GAAP”) equal to, or greater than, five percent (5%) of the public offering price after taxes and excluding extraordinary items, for any two consecutive fiscal years after the date of effectiveness; or,

(b) One-hundred percent (100%) of the Shares shall be released from escrow after the Issuer has had average annual net earnings per share according to GAAP, after taxes and excluding extraordinary items, equal to, or greater than, five percent (5%) of the public offering price, for any five consecutive fiscal years after the date of effectiveness; or,

(c) One-hundred percent (100%) of the Shares shall be released from escrow after the Issuer’s Shares have traded in a reliable public market, e.g., either the New York Stock Exchange, the American Stock Exchange, or the NASDAQ National Marketing System, at a price of at least one-hundred seventy-five percent (175%) of the initial public offering price for at least ninety (90) consecutive trading days after at least one year from the date of effectiveness; or,

(d) The Issuer’s offering has been terminated and no securities have been sold pursuant thereto; or,

(e) The Issuer’s offering did not reach the required amount, has been terminated and all the proceeds have been returned to the investors in such offering.

4. DOCUMENTATION TO ADMINISTRATOR REGARDING RELEASE OF SHARES. A written request stating the grounds for termination of the escrow shall be forwarded to the Administrator. A request for termination of the escrow based upon paragraph 3. a., or 3. b., shall be accompanied by an earnings per share calculation audited and reported on by an independent certified public accountant. If one or more of the provisions of the paragraph 3., above is satisfied, the Administrator shall direct the Escrow Agent to release the Shares to the Security Holder.

5. RESTRICTION ON TRANSFER. The Escrowed Stock may be transferred by will, or pursuant to the laws of descent and distribution, or through appropriate legal proceedings, but in all cases the Shares shall remain in escrow and subject to the terms of this agreement until released pursuant to paragraph 3., above. Upon the death of the holder of any Escrowed Stock, the Escrowed Stock of the deceased holder may be hypothecated, subject to all of the terms of this Agreement, to the extent necessary to pay the expenses of the estate. The Shares in escrow may be transferred by gift to family members, provided that the Shares shall remain subject to the terms of this Agreement. The Shares may not be pledged to secure a debt except as noted above.

6. VOTING POWER. The escrowed Stock shall have all voting rights to which the non-escrowed shares of the same class are entitled.

7. DIVIDENDS. Any dividends paid on the Shares shall be paid to the Escrow Agent by checks of the Issuer made payable to the Escrow Agent with a notation of this Agreement thereon, and any such dividends shall be held pursuant to the terms of this Agreement. The Escrow Agent

shall treat such dividends as assets of the Issuer, available for distribution under the terms of paragraph 8., below, except as provided herein. The Escrow Agent shall place the dividends in an interest bearing account. The dividends and the interest earned thereon shall be disbursed to the Security Holder at the time the Shares are released pursuant to paragraph 3., above, or unless they are applied to the payment of the fees of the Escrow Agent under paragraph 12., below.

8. **STOCK DIVIDENDS OR SPLITS.** Stock dividends on, and shares resulting from stock splits of, the Escrowed Stock shall be delivered to the Escrow Agent and shall be held pursuant to this Agreement as if they were original shares of Escrowed Stock deposited hereunder. In the event of any stock dividend, stock split or recapitalization of the Issuer, the price per share figures herein shall be adjusted appropriately.

9. **ADDITIONAL SHARES.** Upon the exercise by any Security Holder of his or her conversion rights, warrants or options to acquire additional shares of the Issuer pursuant to the documents listed on Exhibit A, the additional shares received from the exercise of such warrants or options shall forthwith be deposited in escrow with the Escrow Agent and shall be subject to the terms and conditions of this Agreement.

10. **DISSOLUTION PREFERENCE.** The Security Holders agree that in the event of dissolution, liquidation, merger, consolidation, sale of assets, exchange or any transaction or proceeding that results in the distribution of the assets of the Issuer, the Security Holders hereby waive all their rights, titles and interests and participations in the assets of the Issuer until the holders of all non-escrowed shares have been paid, or have had irrevocably set aside for them an amount equal to one-hundred percent (100%) of the amount paid to, or set aside for, the non-escrowed shares. Thereafter, the Security Holders shall participate on a pro rata basis with all shareholders. Mergers, consolidations or reorganizations may proceed on terms and conditions different than those stated above if a majority of shares held by persons, other than promoters and Security Holders, approved the terms and conditions by vote at a meeting held for such purpose.

11. **RELIANCE BY ESCROW AGENT.** The Escrow Agent may conclusively rely on, and shall be protected when it acts in good faith upon, any statement, certificate, notice, request, consent, order, or other document which it believes to be genuine and signed by the proper party. The Escrow Agent shall have no duty or liability to verify any such statement, certificate, notice, request, consent, order, or other document and its sole responsibility shall be to act only as expressly set forth in this Agreement. The Escrow Agent shall be under no obligation to institute or defend any action, suit or proceeding in connection with this Agreement unless it is indemnified to its satisfaction. The Escrow Agent may consult counsel with respect to any question arising under this Agreement and the Escrow Agent shall not be liable for any action taken, or omitted, in good faith upon advice of counsel. In performing any of its duties hereunder, the Escrow Agent shall not incur any liability to anyone for any damages, losses or expenses except for willful default or negligence given with respect to any questions. All Shares and funds held pursuant to this Agreement shall constitute trust property. The Escrow Agent shall not be liable for any interest on the Shares.

12. **COMPENSATION TO ESCROW AGENT.** The Escrow Agent shall be entitled to receive from each of the Security Holders reasonable compensation for its services as set forth in Exhibit B attached hereto. In the event that the Escrow Agent renders any additional services not provided for herein, or if any controversy arises hereunder, or if the Escrow Agent is made a party

to, or intervenes in, any action, suit or proceeding pertaining to this Agreement, it shall be entitled to receive from the Security Holders reasonable compensation for such additional services. Upon notice to the Security Holders, the Escrow Agent may deduct its compensation from any cash dividends or distributions held pursuant to paragraph 8., above.

13. QUALIFICATION AND INDEPENDENCE OF ESCROW AGENT. The Issuer hereby represents that a complete list of its officers, directors and promoters is attached hereto as Exhibit C. Based thereon, the Escrow Agent hereby represents and warrants that it is not affiliated with the Issuer, any officer, director or promoter of the Issuer or any Security Holder.

14. INDEMNIFICATION. The Issuer and the Security Holders agree to hold the Escrow Agent harmless from, and indemnify the Escrow Agent for, any and all costs of investigation or claims, costs, expenses, attorney fees or other liabilities or disbursements arising out of any administrative investigation or proceeding or any litigation, commenced or threatened, relating to this Agreement, including without limitation, the implementation of this Agreement, the distribution of stock or funds, the investment of funds, the interpretation of this Agreement or similar matters, provided that the Escrow Agent shall not be indemnified for any claims, costs, expenses or other liability arising from its bad faith or negligence or that of its employees, officers, directors or agents.

15. SCOPE. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, their heirs, successors and assigns.

16. TERMINATION. Except for the indemnification provisions of paragraph 14., above, which shall survive in any event, this Agreement shall terminate in its entirety when all the Shares have been released as provided in paragraph 3., above.

IN WITNESS WHEREOF, the Security Holders, the Issuer, the Escrow Agent and the Administrator have entered into this Agreement as of the date first above written, in multiple counterparts, each of which shall be considered an original.

SECURITY HOLDERS

X_____	X_____
X_____	X_____
X_____	X_____
X_____	X_____
X_____	X_____
X_____	X_____

ATTEST:

Secretary

ISSUER

By _____
President

ESCROW AGENT

By _____

SECURITIES ADMINISTRATOR
